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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9125  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBK/AMEMBASSY BANGKOK 2963  
RUEHBJ/AMEMBASSY BEIJING 2321  
RUEHBY/AMEMBASSY CANBERRA 2064  
RUEHKA/AMEMBASSY DHAKA 5242  
RUEHLO/AMEMBASSY LONDON 2166  
RUEHNE/AMEMBASSY NEW DELHI 5538  
RUEHUL/AMEMBASSY SEOUL 9134  
RUEHTC/AMEMBASSY THE HAGUE 0796  
RUEHKO/AMEMBASSY TOKYO 6712  
RUEHCN/AMCONSUL CHENGDU 1832  
RUEHCHI/AMCONSUL CHIANG MAI 2210  
RUEHCI/AMCONSUL KOLKATA 0680  
RHHMUNA/CDR USPACOM HONOLULU HI  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 2515  
RUEHGV/USMISSION GENEVA 4521  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEAIIA/CIA WASHDC  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000372

SIPDIS

STATE FOR EAP/MLS; INR/EAP; OES; EEB  
PACOM FOR FPA;  
TREASURY FOR OASIA: SCHUN

E.O. 12958: DECL: 06/18/2019  
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [PINR](#) [BM](#)  
SUBJECT: BURMA: SWISS ENERGY COMPANY LOSES ONSHORE OIL  
CONTRACT

REF: RANGOON 112

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d).

Summary  
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¶1. (C) Focus Energy, a Swiss company and one of Burma's largest onshore oil producers, was unable to extend its contract for its two oil fields in May 2009 because the Minister of Energy wanted to grant sole operating rights to the Myanmar Oil and Gas Enterprise (MOGE), according to company officials. MOGE has since assumed operation of the two fields, and has retained Focus's equipment. While MOGE still owes Focus more than USD 15 million for oil delivered since 2007, Focus Energy owners and MOGE allegedly negotiated a deal allowing MOGE to settle the debt by paying USD 7 million over a two-year period. End Summary.

Minister Opposes all But PRC Investment  
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¶2. (C) The GOB encourages foreign companies to invest in the offshore oil and gas sector, but it is far more restrictive in granting rights to foreign companies for onshore drilling. Currently, six foreign companies -- Swiss-owned Focus Energy, Indonesian-French company GoldPetrol, Indian-owned Essar, and Chinese companies Chinese National Petroleum Company (CNPC)/Chinnery Assets, Sinopec, and Chinese National Offshore Oil Corporation (CNOOC) -- have contracts for onshore oil and gas blocks. According to

Raymond Bona, Acting General Manager of GoldPetro1, the Minister of Energy disapproves of foreign investment in onshore blocks, and has stated openly his desire to cancel certain foreign investment contracts. For example, Bona noted that during the past two years, the Energy Ministry delayed contracts for up to 18 months for GoldPetro1, Focus Energy, and Essar. However, because the GOB needs the support of the Government of China, CNPC and CNOOC have faced no such difficulties.

No Contract for You!

13. (C) Focus Energy is the first foreign company to lose its onshore contract, former Focus Energy Technical Coordinator Ye Myat Soe told us. According to its contract with MOGE, Focus had production rights for the MOGE 2 block (located in Magwe Division, Central Burma) for nine years, with the possibility of an additional 11-year extension. Ye Myat Soe confirmed that the original nine-year period expired in May 2009. Although Focus negotiated with MOGE for more than six months for an extension, the Minister of Energy opted to decline the contract renewal. Consequently, Focus Energy closed its Burma operations on May 4, 2009.

14. (C) When asked what prompted the Minister's decision, Ye Myat Soe told us the Minister stated his belief that MOGE could run Focus' two oil fields without foreign assistance (Reftel). Indeed, MOGE assumed control over the block in mid-May and continues to produce approximately 2,300 barrels a day, slightly less than Focus' production of 2,500 barrels a day. Ye Myat Soe opined that MOGE will be unable to

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sustain high levels of production since the block has areas of extreme high pressure. Companies need special equipment and well-trained geologists to drill the area, and Ye Myat Soe doesn't believe MOGE is up to the task.

15. (C) Ye Myat Soe acknowledged "bad blood" between the Minister of Energy and the owners of Focus Energy. According to Ye Myat Soe, the Minister wanted Focus to increase investment levels. The Swiss owners allegedly refused to meet GOB demands, which created friction between the two sides. Ye Myat Soe indicated this issue may have been a factor in the Minister's final decision.

So What Happens Now?

16. (C) According to Ye Myat Soe, Focus Energy will divest from Burma, selling off any assets not seized by MOGE. He indicated that the owners met with MOGE officials to discuss outstanding invoices for oil dating back to 2007, worth more than USD 15 million. Allegedly, during meetings in Nay Pyi Taw in late May, MOGE agreed to pay Focus USD 7 million over a two-year period. The amount appears to placate the Swiss owners, who expected MOGE would refuse to pay anything, Ye Myat Soe stated.

17. (C) For now MOGE will continue to operate the wells in the MOGE 2 block. Both Ye Myat Soe and Bona told us that regime cronies Tay Za, Steven Law, and Nay Aung have expressed interest in acquiring the rights to this block. It remains unclear whether the Minister will allow either Burmese or foreign investors to operate the block, or whether MOGE will retain all production rights. From MOGE's perspective, there are benefits to both options: private investors would be more likely to have the money and technology necessary to continue operations in high pressure areas. On the other hand, as sole operator of the wells, the GOB would not have to pay for any oil produced.

DINGER